

## Message Text

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PAGE 01 JAKART 10205 280851Z  
ACTION EA-12

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INFO USDOC WAASHDC

C O N F I D E N T I A L JAKARTA 10205

DEPARTMENT PASS EXIMBANK  
EA FOR AMBASSADOR MASTERS  
COMMERCE FOR MEPD

E.O. 11652: GDS  
TAGS: BENC, ECRE, EMIN, US, ID  
SUBJECT: MAJOR PROJECTS: KRAKATAU STEEL PLANT EXPANSION

1. SUMMARY: EMBASSY BELIEVES MAJOR TRADE OPPORTUNITY EXISTS FOR U.S. INVOLVEMENT IN BILLION DOLLAR PHASE II EXPANSION OF KRAKATAU STEEL PLANT IN NORTHWEST JAVA PREVIOUSLY EARMARKED FOR WEST GERMAN CONTRACTORS, BUT FAST ACTION ESSENTIAL. END SUMMARY.

2. KRAKATAU STEEL. BEGIN UNCLASSIFIED. INITIAL CONSTRUCTION OF KRAKATAU STEEL PLANT AT CILEGON WAS HANDLED BY WEST GERMAN FIRMS (SIEMENS, KLOECKNER AND FERROSTALL) AND MAJOR PART OF PLANT WILL BEGIN OPERATION IN EARLY AUGUST. EXPANSION PLANS, HOWEVER, CALL FOR SUBSEQUENT STAGES TO BE BUILT UNTIL 1987, COSTING IN THE RANGE OF \$1.2-2.0 BILLION. DECISIONS ON NEXT CONSTRUCTION STAGES EXPECTED TO BE ANNOUNCED WITHIN SIX MONTHS, WITH FIRST ANNOUNCEMENT MADE MID-JULY THAT BROKEN HILL PROPRIETARY CO., LTD. (AUSTRALIAN) TO DO TECHNICAL ASSISTANCE ON NEW BAR MILL. ACCORDING TO ARTICLE IN METAL INDONESIA WRITTEN BY I.T. ARIWIBOWO, PRESIDENT DIRECTOR OF P.T. CONFIDENTIAL

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KRAKATAU STEEL, QUOTE IN THE NEXT PHASE OF EXPANSION, A SECOND STEEL-MAKING AND CONTINUOUS CASTING SHOP WILL BE CONSTRUCTED, THIS ONE FOR THE PRODUCTION OF SLABS. THE SLABS WILL BE ROLLED ON A SEMI-CONTINUOUS HOT STRIP MILL TO PRODUCE HEAVY PLATE (ROLLED ON THE REVERSING ROUGHING STAND ONLY) AND COILS TO LIGHT PLATE AND FOR HOT AND COLD ROLLED PRODUCTS. THE COILS FOR LIGHT

PLATE WILL BE PROCESSED ON A LIGHT PLATE FINISHING LINE, WHERE THEY WILL BE UNCOILED, LEVELED, SIDE STRIMMED TO WIDTH, SHEARED TO LENGTH, AND PILED. A HOT ROLLED SHEET AND STRIP FINISHING LINE WILL LEVEL, SIDE TRIM AND SLIT OR CUT TO LENGTH LIGHTER GAUGE HOT ROLLED PRODUCTS. AN EXTENSIVE COLD ROLLING MILL WILL CONTAIN A CONTINUOUS PICKLING LINE, COLD REDUCTION MILL, BATCH ANNEALING FACILITIES, TEMPER MILL, AND COLD ROLLED SHEET AND STRIP FINISHING LINES. ON COMPLETION OF THE PLANNED PHASE II PROGRAM, APPROXIMATELY 1,100,000 TONS/YEAR OF SLAB PRODUCING CAPACITY WILL HAVE BEEN INSTALLED WHICH WILL THEN GIVE KRAKATUA A TOTAL CAPACITY OF OVER 1,600,000 TONS/YEAR OF RAW STEEL (CAST BILLETS AND SLABS) /ALL MADE FROM HYL DIRECT REDUCED IRON./ UNQUOTE (END UNCLASSIFIED)

2. EMBASSY COMMENT: (BEGIN CONFIDENTIAL). KRAKATAU PROJECT BEGAN IN BAD ODOR SHORTLY BEFORE PERTAMINA CRISIS. WEST GERMAN FIRMS RESPONSIBLE FOR PHASE I HAVE REPORTEDLY WORN OUT THEIR WELCOME, DUE TO EXCESSIVE COSTS, EXCLUSIVITY AND SECRECY OF SUB-CONTRACTS, STEADY RISE IN VALUE OF DEUTSCH MARK, ETC. KAISER ENGINEERS RESPONSIBLE FOR FEASIBILITY STUDIES, WHICH SHOW THAT WEST GERMAN ESTIMATES WELL ABOVE U.S. ESTIMATED COST OF PHASE II. PLANT DIRECTORS EAGER TO LAUNCH PHASE II WITH GENUINE INTERNATIONAL COMPETITIVE BIDDING. (THEY HAVE ALREADY CONTACTED FIRMS FROM SEVERAL CONFIDENTIAL

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OTHER COUNTRIES AND PAID U.S. FIRM, WYNN UNITED, \$50,000 TO DO OBJECTIVE STUDY FOR INCLUSION IN PRE-FEASIBILITY WORK.)

3. EMBASSY BELIEVES THIS IS UNUSUAL OPPORTUNITY TO DEMONSTRATE TO INDONESIAN GOVERNMENT THE ECONOMIC VALUE OF OPEN BID PROCESS AND GENUINE COMPETITION, AND REGARDS THIS IS AN INSTANCE WHERE GOI LEADERS WOULD BE GLAD TO BE SO CONVINCED AS A FACE-SAVING MANNER IN WHICH TO RELEASE THEMSELVES FROM IRKSOME COMMITMENT TO WEST GERMANS. WE BELIEVE U.S. FIRMS WOULD HAVE SIGNIFICANT EDGE OVER COMPETITORS IN SUCH AN OPEN PROCESS.

4. VISIT OF GERMAN MINISTER OF ECONOMIC AFFAIRS TO JAKARTA, NOW SCHEDULED FOR MID-AUGUST, COULD PUT PRESSURE ON GOI DECISION-MAKERS TO STOP STALLING. EVIDENCE OF GROWING INTERNATIONAL BIDDING FAVORABLE TO INDONESIAN INTERESTS COULD HELP THEM CONTINUE DELAY AWARD TO WEST GERMAN FIRMS. ACCORDINGLY, INTERESTED U.S. FIRMS SHOULD CONTACT KAISER ENGINEERS AS SOON AS POSSIBLE. (END CONFIDENTIAL)

5. ACTION: USDOC SHOULD INFORM INTERESTED U.S.  
COMPANIES ABOUT THIS TRADE OPPORTUNITY SOONEST.  
GARDNER

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NNN

## Message Attributes

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**Concepts:** TECHNICAL ASSISTANCE, PROGRAMS (PROJECTS), STEEL PLANTS  
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**Type:** TE  
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